

CITY OF MONTEZUMA, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2009

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CITY OF MONTEZUMA, IOWA

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James M. Hicks	Mayor	January, 2011
Frank R. Brownell, III	Mayor Pro Tem	January, 2011
Ronald Willrich	Council Member	January, 2011
Ronald Hedrick	Council Member	January, 2011
Mark Bolen	Council Member	January, 2010
Donald Vos	Council Member	January, 2010
 Meryll Hicks	 Clerk/Treasurer	 Indefinite
William J. Sueppel	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:
City of Montezuma
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 20, 2009, on our consideration of the City of Montezuma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. Another CPA firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ending June 30, 2004 and we audited the financial statements for the four years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

August 20, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 57.5%, or approximately \$1,718,000, from fiscal 2008 to fiscal 2009. Last year there were bond proceeds of over \$1,594,000 compared to none this year, and the intergovernmental funds were down \$108,105 which were largely FEMA funds from the ice storm the previous year.
- Disbursements of the City's governmental activities decreased 47.2%, or approximately \$1,275,000 from fiscal 2008 to fiscal 2009. Capital project expenditures were down approximately \$1,048,000 for street work, streetscape and housing projects.
- The City's total cash basis net assets decreased 8.7%, or approximately \$345,000 from June 30, 2008 to June 30, 2009. The current year governmental activities decreased \$119,000 and the assets of the business type activities decreased \$226,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds, indebtedness, changes in fiduciary assets and liabilities, and a comparative schedule of receipts and disbursements.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general governmental, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the water works, sanitary sewer, recycling, and gas systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in thousands)		
	Year ended June 30,	
	2009	2008
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 105	87
Operating grants, contributions and restricted interest	149	152
Capital grants, contributions and restricted interest	144	295
General receipts:		
Property tax	539	508
Tax increment financing	48	48
Other city taxes	128	166
Grants and contributions not restricted to specific purposes	17	-
Payment in lieu of taxes	60	50
Unrestricted interest earnings	19	46
Bond proceeds	-	1,594
Miscellaneous	61	44
Sale of Assets	1	-
Transfer in	35	30
Total receipts and transfers	<u>1,306</u>	<u>3,020</u>
Disbursements:		
Public safety	286	325
Public works	271	259
Health and social services	-	-
Culture and recreation	118	114
Community and economic development	-	152
General government	106	109
Debt service	286	335
Capital projects	358	1,406
Total disbursements	<u>1,425</u>	<u>2,700</u>
Increase in cash basis net assets	(119)	320
Cash basis net assets beginning of year	<u>2,189</u>	<u>1,869</u>
Cash basis net assets end of year	<u>\$ 2,070</u>	<u>2,189</u>

The City's total receipts and transfers for governmental activities decreased by 56.8%, or \$1,714,000. This significant decrease was due primarily to the receipt of \$1,594,000 in general obligation bond proceeds in 2008 and not in 2009. The total cost of all programs and services decreased by approximately \$1,275,000, or 47.2%. The significant decrease in programs and services was primarily due to fewer capital project expenditures.

The cost of all governmental activities this year was \$1,425,000 compared to \$2,700,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 12 and 13, the amount taxpayers ultimately financed for these activities was only \$1,027,000 because some of the cost was paid by those directly benefiting from the programs (\$105,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$293,000). Overall, the City's governmental activities program receipts decreased in 2009 from approximately \$534,000 to approximately \$398,000 principally due to less FEMA grant receipts. The City paid for the remaining "public benefit" portion of governmental activities (\$1,027,000) with taxes (some of which could only be used for certain programs) and other receipts, such as bond proceeds, interest, and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in thousands)		
	Year ended June 30,	
	2009	2008
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 484	495
Sewer	90	92
Recycling	61	56
Gas	900	1,378
General receipts:		
Unrestricted interest earnings	16	54
Other general receipts	65	32
Total receipts	<u>1,616</u>	<u>2,107</u>
Disbursements:		
Water	582	489
Sewer	44	47
Recycling	58	53
Gas	1,123	1,552
Total disbursements	<u>1,807</u>	<u>2,141</u>
Change in cash basis net assets before transfers	(191)	(34)
Transfers, net	<u>(35)</u>	<u>(30)</u>
Change in cash basis net assets	(226)	(64)
Cash basis net assets beginning of year	<u>1,774</u>	<u>1,838</u>
Cash basis net assets end of year	<u>\$ 1,548</u>	<u>1,774</u>

Total business type activities receipts for the fiscal year were \$1.616 million compared to \$2.107 million last year. Total disbursements and transfers for the fiscal year decreased 15.2% to a total of \$1.842 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$2,069,999, a decrease of \$118,772 from last year's total of \$2,188,771. The major reason for the change in fund balance from the prior year is that intergovernmental receipts were down \$108,105.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$82,553 to \$404,112, due primarily to a decrease in revenues and an increase in expenditures.
- The Sewer Fund cash balance increased by \$14,549 to \$383,171, which is a smaller increase than last year due to a larger increase in expenditures than receipts.
- The Recycling Fund cash balance increased by \$3,796 to \$55,945, due primarily to larger operating receipts than disbursements.
- The Gas Fund cash balance decreased by \$162,327 to \$704,317 due to a capital project expenditure of \$238,088 paid by operating revenues.

BUDGETARY HIGHLIGHTS

The City's budget was not amended during the year.

The City's receipts were \$258,177 less than budgeted, primarily in charges for services.

The City's disbursements were \$2,332,162 less than budgeted, primarily in business type activities. Three areas of the budget were exceeded by expenditures. The community and economic development, capital projects and the debt service functions exceeded the budget for fiscal year 2009.

DEBT ADMINISTRATION

At June 30, 2009, the City had approximately \$1,494,000 in bonds and other long-term debt, compared to approximately \$1,704,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2009	2008
General obligation bonds	\$ 1,415	1,590
Urban renewal tax increment financing revenue bonds	79	114
Total	<u>\$ 1,494</u>	<u>1,704</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$1,494,000 is below its total calculated constitutional debt limit of \$3.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Montezuma's elected and appointed officials considered many factors when setting the fiscal year 2010 budget such as tax rates and fees charged for various City activities. One of those factors was the economy and concern over rising costs in general, as well as increases in insurance and other charges for services and operating costs specifically.

The amounts levied for property tax will reflect an increase of \$14,439, primarily due to an increase in insurance and operating costs. Amounts available for appropriation in the operating budget are \$7,136,515, a decrease from the 2009 budget. Of the appropriated funds, \$6,091,505 are for business type activities. The business type activity expenditures decreased due to completion of the gas shop, the water bond being paid off and a decrease in wages and expenses for the light plant. The City has added no major new programs or initiatives in the 2010 budget.

COMPONENT UNIT

The separately issued financial statements for the Montezuma Light and Power Plant, listed as a component unit on these financial statements, is also available by contacting Meryll Hicks, City Clerk, at the address listed below.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, 501 East Main St., Box 314, Montezuma, Iowa.

Basic Financial Statements

CITY OF MONTEZUMA, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 As of and for the year ended June 30, 2009

		Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Disbursements			
Functions/Programs:				
Primary government:				
Governmental activities:				
Public safety	\$ 286,586	97,646	24,020	31,557
Public works	270,817	-	120,887	-
Culture and recreation	117,837	108	4,758	-
Community and economic development	114,478	-	-	106,893
General government	106,235	7,185	-	5,276
Debt service	285,994	-	-	-
Capital projects	243,522	-	-	-
Total governmental activities	1,425,469	104,939	149,665	143,726
Business type activities:				
Water	582,255	483,757	-	-
Sewer	43,627	89,855	-	-
Recycling	58,090	61,394	-	-
Gas	1,122,853	899,725	-	-
Total business type activities	1,806,825	1,534,731	-	-
Total primary government	\$ 3,232,294	1,639,670	149,665	143,726
Component Unit:				
Municipal Light and Power Plant	\$ 2,792,179	3,188,664	-	-
Total component unit	\$ 2,792,179	3,188,664	-	-

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total		
(133,363)	-	(133,363)	-	
(149,930)	-	(149,930)	-	
(112,971)	-	(112,971)	-	
(7,585)	-	(7,585)	-	
(93,774)	-	(93,774)	-	
(285,994)	-	(285,994)	-	
(243,522)	-	(243,522)	-	
(1,027,139)	-	(1,027,139)	-	
-	(98,498)	(98,498)	-	
-	46,228	46,228	-	
-	3,304	3,304	-	
-	(223,128)	(223,128)	-	
-	(272,094)	(272,094)	-	
(1,027,139)	(272,094)	(1,299,233)	-	
-	-	-	396,485	
-	-	-	396,485	

CITY OF MONTEZUMA, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the year ended June 30, 2009

	Program Receipts		
	Charges for	Operating Grants,	Capital Grants,
	Service	Contributions and	Contributions
		Restricted Interest	and Restricted
	Disbursements		Interest
General Receipts:			
Property tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales and service tax			
Grants and contributions not restricted to specific purposes			
Payment in lieu of taxes			
Unrestricted interest on investments			
Miscellaneous			
Sale of Assets			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Streets			
Urban renewal purposes			
Debt service/improvements			
Capital projects			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business Type Activities	Total		
\$ 400,179	-	400,179	-	
48,184	-	48,184	-	
138,686	-	138,686	-	
128,568	-	128,568	-	
16,927	-	16,927	-	
59,627	-	59,627	-	
18,780	16,343	35,123	10,741	
60,948	64,634	125,582	1,000	
1,050	-	1,050	-	
35,418	(35,418)	-	-	
908,367	45,559	953,926	11,741	
(118,772)	(226,535)	(345,307)	408,226	
2,188,771	1,774,080	3,962,851	1,249,072	
2,069,999	1,547,545	3,617,544	1,657,298	
111,395	-	111,395	-	
36,328	-	36,328	-	
50,201	-	50,201	711,498	
272,781	-	272,781	-	
164,606	-	164,606	-	
1,434,688	1,547,545	2,982,233	945,800	
\$ 2,069,999	1,547,545	3,617,544	1,657,298	

Exhibit B

CITY OF MONTEZUMA, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2009

	General	Capital Projects	Debt Service	Non-major	Total
Receipts:					
Property tax	\$ 400,179	-	138,686	-	538,865
Tax increment financing collections	-	-	-	48,184	48,184
Local options sales & use tax	-	-	-	128,568	128,568
Licenses and permits	2,725	-	-	-	2,725
Use of money and property	21,628	5,276	1,488	124	28,516
Intergovernmental	17,458	106,893	-	120,887	245,238
Charges for service	97,647	-	-	-	97,647
Private contributions	59,804	-	-	-	59,804
Miscellaneous	120,682	-	-	-	120,682
Total receipts	720,123	112,169	140,174	297,763	1,270,229
Disbursements:					
Operating:					
Public safety	286,586	-	-	-	286,586
Public works	139,884	-	241,304	130,933	512,121
Culture and recreation	117,837	-	-	-	117,837
Community and economic development	-	114,478	-	-	114,478
General government	106,235	-	-	-	106,235
Debt service	-	-	-	44,690	44,690
Capital projects	-	243,522	-	-	243,522
Total disbursements	650,542	358,000	241,304	175,623	1,425,469
Excess (deficiency) of receipts over (under) disbursements	69,581	(245,831)	(101,130)	122,140	(155,240)
Other financing sources (uses):					
Sale of Assets	1,050	-	-	-	1,050
Operating transfers in	116,222	-	122,934	-	239,156
Operating transfers out	-	(116,222)	-	(87,516)	(203,738)
Total other financing sources	117,272	(116,222)	122,934	(87,516)	36,468
Net change in cash balances	186,853	(362,053)	21,804	34,624	(118,772)
Cash balances beginning of year	1,247,835	634,834	28,397	277,705	2,188,771
Cash balances end of year	\$ 1,434,688	272,781	50,201	312,329	2,069,999
Cash Basis Fund Balances					
Reserved:					
Debt service/improvement	\$ -	-	50201	-	50,201
Klindt memorial	1,641	-	-	-	1,641
Unreserved:					
General Fund	1,433,047	-	-	-	1,433,047
Special revenue funds	-	-	-	308,829	308,829
Capital projects fund	-	272,781	-	-	272,781
Permanent endowment, library	-	-	-	3,500	3,500
Total cash basis fund balances	\$ 1,434,688	272,781	50,201	312,329	2,069,999

See notes to financial statements.

Exhibit C

CITY OF MONTEZUMA, IOWA
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
As of and for the year ended June 30, 2009

Total governmental funds cash balances (Exhibit A)	<u>\$ 2,069,999</u>
Cash basis net assets of governmental activities (Exhibit B)	<u><u>\$ 2,069,999</u></u>
Net change in cash balances (Exhibit B)	<u>\$ (118,772)</u>
Change in cash balance of governmental activities (Exhibit A)	<u><u>\$ (118,772)</u></u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the year ended June 30, 2009

	Enterprise Funds				Total
	Water	Sewer	Recycling	Gas	
Operating receipts:					
Charges for service	\$ 483,757	89,855	61,394	899,725	1,534,731
Miscellaneous	11,742	-	-	52,892	64,634
Total operating receipts	495,499	89,855	61,394	952,617	1,599,365
Operating disbursements:					
Business type activities	466,246	43,627	58,090	884,765	1,452,728
Total operating disbursements	466,246	43,627	58,090	884,765	1,452,728
Excess (deficiency) of operating receipts over (under) operating disbursements	29,253	46,228	3,304	67,852	146,637
Non-operating receipts (disbursements):					
Interest on investments	4,203	3,739	492	7,909	16,343
Capital projects	(116,009)	-	-	(238,088)	(354,097)
Total non-operating receipts (disbursements)	(111,806)	3,739	492	(230,179)	(337,754)
Excess (deficiency) of receipts over (under) disbursements	(82,553)	49,967	3,796	(162,327)	(191,117)
Operating transfers out	-	(35,418)	-	-	(35,418)
Net change in cash balances	(82,553)	14,549	3,796	(162,327)	(226,535)
Cash balances beginning of year	486,665	368,622	52,149	866,644	1,774,080
Cash balances end of year	\$ 404,112	383,171	55,945	704,317	1,547,545
Cash Basis Fund Balances					
Unreserved	\$ 404,112	383,171	55,945	704,317	1,547,545
Total cash basis fund balances	\$ 404,112	383,171	55,945	704,317	1,547,545

See notes to financial statements.

Exhibit E

CITY OF MONTEZUMA, IOWA
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS
As of and for the year ended June 30, 2009

Total enterprise funds cash balances (Exhibit D)	<u>\$ 1,547,545</u>
Cash basis net assets of business type activities (Exhibit A)	<u><u>\$ 1,547,545</u></u>
Net change in cash balances (Exhibit D)	<u>\$ (226,535)</u>
Change in cash balance of business type activities (Exhibit A)	<u><u>\$ (226,535)</u></u>

See notes to financial statements.

Exhibit F

CITY OF MONTEZUMA, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 COMPONENT UNIT
 As of and for the year ended June 30, 2009

	<u>Municipal Light and Power Plant</u>
Operating receipts:	
Charges for service	\$ 3,188,664
Total operating receipts	<u>3,188,664</u>
Operating disbursements:	
Business type activities	<u>2,190,596</u>
Total operating disbursements	<u>2,190,596</u>
Excess of operating receipts over operating disbursements	998,068
Non-operating receipts (disbursements):	
Rental income	1,000
Interest on investments	10,741
Miscellaneous	(17,925)
Debt service	(434,708)
Capital projects	<u>(148,950)</u>
Total non-operating disbursements	<u>(589,842)</u>
Excess of receipts over disbursements	<u>408,226</u>
Net change in cash balances	408,226
Cash balances beginning of year	<u>1,249,072</u>
Cash balances end of year	<u>\$ 1,657,298</u>
Cash Basis Fund Balances	
Reserved for debt service/improvements	\$ 711,498
Unreserved	<u>945,800</u>
Total cash basis fund balances	<u>\$ 1,657,298</u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2009

	<u>Agency</u>
Assets	
Cash and investments	\$ 4,764
Total assets	<u>4,764</u>
Liabilities	
Accounts payable	<u>4,764</u>
Total liabilities	<u>4,764</u>
Net assets	<u>\$ -</u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(1) **Summary of Significant Accounting Policies**

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, recycling and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

The Statement of Activities and Net Assets does not include fiduciary funds or component units that are fiduciary in nature. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Recycling Fund accounts for the operation and maintenance of the City's recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the city's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Reserved cash basis fund balances include two items. All cash in the Debt Service fund is reserved for Debt Service and improvement. The Klindt Memorial is cash reserved by the Council to be spent as expressed by the Klindt family. There is no legal trust in place.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development, capital projects and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Included in the June 30, 2009 general fund cash is \$28,872 in library donations and earnings and \$3,500 in library endowment donations, both held in trust by the Montezuma Community Foundation. The \$28,872 is available for use by the library whenever requested by the library board. The \$3,500 may not be spent; only earnings from those contributions will be available.

At June 30, 2009 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Certificate of deposit	\$ 45,000	45,000	December-09
Certificate of deposit	20,000	20,000	January-10
Total	<u>\$ 65,000</u>	<u>65,000</u>	

CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,644,294 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and urban renewal tax increment financing revenue bonds are as follows:

Year ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 180,000	58,256	38,000	6,715	218,000	64,971
2011	155,000	50,576	41,000	3,485	196,000	54,061
2012	160,000	44,376	-	-	160,000	44,376
2013	170,000	37,976	-	-	170,000	37,976
2014	175,000	31,091	-	-	175,000	31,091
2015-2017	575,000	48,602	-	-	575,000	48,602
Total	\$ 1,415,000	270,877	79,000	10,200	1,494,000	281,077

The City of Montezuma issued \$240,000 in general obligation bonds May of 2000 for the purpose of carrying out a sewer improvement project. The City of Montezuma issued \$1,615,000 in general obligation bond in September, 2007 for the purpose of carrying out a street improvement project. The total principal and interest payments remaining on the two general obligation bond issues are \$1,685,877, payable through 2017.

The City of Montezuma issued \$370,000 of the urban renewal tax increment financing revenue bonds in February, 1995 for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$89,200, payable through 2011. For the current year, interest paid and total TIF receipts were \$9,690 and \$48,184, respectively.

Total interest charged to expense during the fiscal year was \$75,194. None was associated with product financing arrangements or capitalized enterprise fund assets.

CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(4) Pension and Retirement Benefits

The City of Montezuma contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007, were \$22,692, \$21,173, and \$19,006, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2009, primarily related to the Water Enterprise Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$10,381

This liability has been computed based on rates in effect at June 30, 2009.

(6) Interfund Transfers

The details of interfund transfers to the year ended June 30, 2009 are as follows:

<u>Transfer to:</u>	<u>Transfer from:</u>	<u>Amount</u>
General	Capital Projects-Fire Dept Reserve	\$ 116,222
Debt Service	Local sales tax - Special Revenue	52,141
Debt Service	Sewer - Enterprise Fund	35,418
Debt Service	TIF/Monte Mfg	35,374

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF MONTEZUMA, IOWA

NOTES TO FINANCIAL STATEMENTS
June 30, 2009

(7) Transactions Between the City and the Component Unit

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ (27,102)	-
Water Dept. Billing/Meter Reading	(30,108)	-
Gas Dept. Electric Use	(12,858)	-
Gas Dept. Billing/Meter Reading	(21,461)	-
General City Electric Use	(54,551)	-
Power Plants - Taxes in lieu	-	59,627
Totals	<u>\$ (146,080)</u>	<u>59,627</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$6,021 during the year ended June 30, 2009.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Commitments and Contingencies

On December 6, 2006, the City of Montezuma Light & Power plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The total commitment is for \$100,000. As of June 30, 2009, \$5,000 had been invested.

Required Supplementary Information

CITY OF MONTEZUMA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS - REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2009

	Governmental Funds Actual	Proprietary Funds Actual	Net	Original & Final	Final to Net Variance
Receipts:					
Property tax	\$ 538,865	-	538,865	526,459	12,406
Tax increment financing collections	48,184	-	48,184	44,690	3,494
Other city tax	128,568	-	128,568	120,670	7,898
Licenses and permits	2,725	-	2,725	2,700	25
Use of money and property	28,516	28,084	56,600	65,000	(8,400)
Intergovernmental	245,238	-	245,238	122,000	123,238
Charges for services	97,647	4,723,395	4,821,042	5,383,000	(561,958)
Private contributions	59,804	-	59,804	-	59,804
Miscellaneous	120,682	64,634	185,316	80,000	105,316
Total receipts	1,270,229	4,816,113	6,086,342	6,344,519	(258,177)
Disbursements:					
Public safety	286,586	-	286,586	288,650	2,064
Public works	270,817	-	270,817	292,344	21,527
Health & Social Services	-	-	-	4,500	4,500
Culture and recreation	117,837	-	117,837	130,855	13,018
Community & economic development	114,478	-	114,478	44,690	(69,788)
General government	106,235	-	106,235	125,060	18,825
Debt service	285,994	434,708	720,702	256,201	(464,501)
Capital projects	243,522	503,047	746,569	250,000	(496,569)
Business type activities	-	3,643,324	3,643,324	6,946,410	3,303,086
Total disbursements	1,425,469	4,581,079	6,006,548	8,338,710	2,332,162
Excess (deficiency) of receipts over (under) disbursements	(155,240)	235,034	79,794	(1,994,191)	2,073,985
Other financing sources, net	36,468	(53,343)	(16,875)	-	16,875
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(118,772)	181,691	62,919	(1,994,191)	2,090,860
Balances beginning of year	2,188,771	3,023,152	5,211,923	3,547,843	1,664,080
Balances end of year	\$ 2,069,999	3,204,843	5,274,842	1,553,652	3,754,940

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development, capital projects and debt service functions.

Other Supplementary Information

CITY OF MONTEZUMA, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the year ended June 30, 2009

	Special Revenue				
	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales & Use Tax	Permanent Fund	Total
Receipts:					
Tax increment financing collections	-	48,184	-	-	48,184
Local option sales and use tax		-	128,568	-	128,568
Use of money and property	-	-	124	-	124
Intergovernmental	120,887	-	-	-	120,887
Total receipts	120,887	48,184	128,692	-	297,763
Disbursements:					
Operating:					
Public works	130,933	-	-	-	130,933
Debt service		44,690	-	-	44,690
Total disbursements	130,933	44,690	-	-	175,623
Excess (deficiency) of receipts over (under) disbursements	(10,046)	3,494	128,692	-	122,140
Other financing sources (uses):					
Operating transfers out	-	(35,374)	(52,142)	-	(87,516)
Total other financing sources (uses)	-	(35,374)	(52,142)	-	(87,516)
Net change in cash balances	(10,046)	(31,880)	76,550	-	34,624
Cash balances beginning of year	121,441	68,208	84,556	3,500	277,705
Cash balances end of year	\$ 111,395	36,328	161,106	3,500	312,329
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 111,395	36,328	161,106	-	308,829
Permanent endowment, library	-	-	-	3,500	3,500
Total cash basis fund balances	\$ 111,395	36,328	161,106	3,500	312,329

See notes to financial statements.

CITY OF MONTEZUMA, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest & Fees Paid	Interest Due and Unpaid
General obligation bonds:									
Sewer	5/1/2000	5.0-5.6%	\$240,000	\$ 60,000	-	30,000	30,000	3,345	140
Street	9/1/2007	3.8-4.2%	1,615,000	1,530,000		145,000	1,385,000	62,159	4,715
				<u>\$ 1,590,000</u>	-	<u>175,000</u>	<u>1,415,000</u>	<u>65,504</u>	<u>4,855</u>
Urban renewal tax increment financing:									
(TIF) Revenue bonds	2/22/1995	8.00-8.50%	\$370,000	\$ 114,000	-	35,000	79,000	9,690	560

Schedule 3

CITY OF MONTEZUMA, IOWA
BOND AND NOTE MATURITIES
Year ended June 30, 2009

Year Ending June 30,	General Obligation Bond/Notes				Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Sewer		Street			
	Issued 5-1-2000		Issued 9-1-2007		Issued 2-22-1995	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2010	5.60%	\$ 30,000	4.00%	150,000	8.50%	38,000
2011			4.00%	155,000	8.50%	41,000
2012			4.00%	160,000		
2013			4.05%	170,000		
2014			4.10%	175,000		
2015			4.13%	185,000		
2016			4.15%	190,000		
2017			4.20%	200,000		
		<u>\$ 30,000</u>		<u>1,385,000</u>		<u>79,000</u>

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 June 30, 2009

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 3,789	9,000	8,025	4,764
Liabilities				
Accounts payable	\$ 3,789	9,000	8,025	4,764

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST EIGHT YEARS

	2009	2008	2007	2006	2005	2004	2003	2002
Receipts:								
Property tax	\$ 538,865	508,001	480,742	476,022	459,199	431,436	414,419	421,509
Tax increment financing collections	48,184	47,695	45,124	43,733	46,885	49,794	47,658	50,196
Other taxes	128,568	166,417	-	-	986	-	-	-
Licenses & permits	2,725	2,830	-	-	-	-	-	-
Use of money and property	28,516	82,230	75,417	41,662	29,397	19,891	17,747	11,849
Intergovernmental	245,238	353,343	121,433	122,541	122,047	136,597	159,142	161,796
Charges for service	97,647	81,596	82,222	89,033	74,911	88,461	83,344	44,109
Miscellaneous	180,486	153,127	97,860	103,531	481,620	77,702	55,858	39,129
Total	<u>\$ 1,270,229</u>	<u>1,395,239</u>	<u>902,798</u>	<u>876,522</u>	<u>1,215,045</u>	<u>803,881</u>	<u>778,168</u>	<u>728,588</u>
Disbursements:								
Operating:								
Public safety	\$ 286,586	325,039	164,930	260,458	159,325	178,665	150,188	138,109
Public works	270,817	259,360	241,578	193,131	201,900	262,332	225,916	209,845
Health and social services	-	-	2,750	-	2,500	6,730	-	-
Culture and recreation	117,837	114,126	108,146	126,386	399,413	121,897	80,391	95,573
Community & economic development	-	151,878	-	-	-	-	-	-
General government	106,235	109,311	104,242	103,364	100,203	102,222	95,043	81,861
Debt service	285,994	334,911	165,895	169,962	169,803	-	124,620	123,580
Capital projects	358,000	1,405,527	-	-	-	-	-	-
Total	<u>\$ 1,425,469</u>	<u>2,700,152</u>	<u>787,541</u>	<u>853,301</u>	<u>1,033,144</u>	<u>671,846</u>	<u>676,158</u>	<u>648,968</u>

See accompanying independent auditor's report.



705 Main Street
Pella, IA 50219
641-628-3737

www.vanmaanenpcpa.com

Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

To the Honorable Mayor and Members of the City Council
City of Montezuma
Montezuma, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montezuma as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 20, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Montezuma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Montezuma's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Montezuma's financial statements that is more than inconsequential will not be prevented or detected by the City of Montezuma's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Montezuma's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-09 is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

August 20, 2009

CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2009

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

Part III: Other Findings Related to Statutory Reporting:

III-A-09 Certified Budget - Disbursements during the year ended June 30, 2009 exceeded the budget in the community and economic development, capital projects and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

CITY OF MONTEZUMA, IOWA

SCHEDULING OF FINDINGS

Year Ended June 30, 2009

III-B-09 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-09 Travel Expense - No disbursements of City of Montezuma money for travel expenses of spouses of City officials or employees were noted.

III-D-09 Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2009 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Heating System & Repairs	\$3,245
Doug Ver Meer, Light Plant Board Member, Owner, Vannoy Chevrolet	Truck repairs	\$2,776

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions appear to represent conflicts of interest since total transactions with the individuals were more than \$1,500 during the fiscal year.

Recommendation – Legal council should be consulted.

Response – We will consult legal council to resolve.

Conclusion – Response accepted.

III-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

III-F-09 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-09 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-09 Revenue Bonds and Notes - The City of Montezuma has established proper accounts as required by the City revenue note resolution.